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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 20, 2006

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **HOUSING AUTHORITY OF THE CITY OF LOS ANGELES CONTRACT -
WORKFORCE INVESTMENT ACT ADULT SPECIAL NEEDS
PROGRAM**

We have conducted a program, fiscal and administrative contract review of Housing Authority of the City of Los Angeles (Housing Authority or Agency), a Workforce Investment Act (WIA) Program service provider.

Background

DCSS contracts with Housing Authority, a government agency, to provide and operate the WIA Adult Special Needs Program. The WIA Adult Special Needs Program is a comprehensive training and employment program limited to low-income adults 18 years or older, who face multiple barriers to employment. These individuals include the recovering drug addicts, homeless individuals, and offenders. Housing Authority's offices are located in the First and Second Districts.

Housing Authority is compensated on a cost reimbursement basis. DCSS paid Housing Authority \$59,904 for Fiscal Year (FY) 2004-05, and Housing Authority's contract was for \$69,884 for FY 2005-06.

"To Enrich Lives Through Effective and Caring Service"

Purpose/Methodology

The purpose of the review was to determine whether Housing Authority complied with its contract terms and appropriately accounted for and spent WIA funds in providing services to eligible participants for FY 2005-06. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State, and County guidelines.

Housing Authority was not monitored in FY 2004-05 by the contracted CPA firm. Therefore, at the request of the Department of Community and Senior Services (DCSS), we expanded our scope to include test work in the areas of payroll and non-personnel expenditures billed in FY 2004-05.

Results of Review

The nine program participants interviewed stated that the services received met their expectations. However, the Housing Authority billed DCSS for payroll expenses based on estimated amounts and not actual as required by the County contract. In addition, the Agency did not always comply with the requirements of the County contract. Specifically, the Housing Authority did not:

- Obtain appropriate documentation for two (20%) of the ten program participants to support the participants' eligibility to receive program services.
- Submit an annual Agency-wide Cost Allocation Plan.
- Have a fire inspection certificate or a building permit.
- Submit their invoices to DCSS within five working days of the month immediately following the month in which the services invoiced were rendered.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Housing Authority on September 18, 2006. In their attached response, Housing Authority indicated that the program site did not require a fire inspection because it is not considered a high-rise building. However, according to the City of Los Angeles Fire Department, an inspection is required even though the building is not considered a high-rise building either annually or once every three years depending on the size of the building.

We notified DCSS of the results of our review. We thank Housing Authority for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

- c: David E. Janssen, Chief Administrative Officer
Cynthia Banks, Director, Department of Community and Senior Services
Rudolf Montiel, Executive Director, Housing Authority of the City of Los Angeles
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
FISCAL YEAR 2005-06**

ELIGIBILITY

Objective

Determine whether Housing Authority of the City of Los Angeles (Housing Authority or Agency) provided services to the participants that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We sampled ten (83%) of the twelve program participants that received services between July 2005 and February 2006 and reviewed their case files for documentation to confirm their eligibility for WIA program services.

Results

Housing Authority did not obtain appropriate documentation for two (20%) of the ten program participants to support the participants' eligibility to receive program services as required by WIA guidelines. Subsequent to our review, Housing Authority provided documentation to support the eligibility of one of the two ineligible participants. Housing Authority billed DCSS \$63 in direct supportive services provided to the individual not eligible for program services. Housing Authority also may have billed DCSS for other indirect services for the ineligible participant. However, we could not determine the amount of the indirect expense.

Recommendations

Housing Authority management:

- 1. Repay DCSS \$63 and for any other services incurred on behalf of the one ineligible participant.**
- 2. Ensure that staff obtain the appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment.**

BILLED SERVICES/CLIENT VERIFICATION**Objective**

Determine whether Housing Authority provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the documentation contained in the case files for ten (83%) program participants that received services during July 2005 through February 2006. We also interviewed nine participants.

Results

The nine program participants interviewed stated that the services received met their expectations. However, the Housing Authority did not maintain appropriate documentation in two (20%) of the ten participants' case files to support the billed services provided to the two individuals. The total amount of unsupported services was \$160.

Subsequent to our review, Housing Authority provided copies of receipts to support the supportive services. However, they were not signed by the participants to validate that the participants did receive the supportive services as required. As such, Housing Authority needs to repay DCSS \$160.

Recommendations**Housing Authority management:**

3. Repay DCSS \$160.
4. Ensure that staff obtain appropriate supporting documentation for supportive services provided to the participants.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. Determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed Housing Authority's bank reconciliations for December 2005.

Results

Housing Authority maintained adequate controls to ensure that cash receipts and revenues were properly recorded and deposited in a timely manner. However, Housing Authority's accounting policies and procedures indicated that checks should not be made out to cash, except for petty cash. According to the County contract, checks made payable to "cash" is strictly prohibited.

Recommendation

5. Housing Authority management revise the Agency's accounting policies and procedures to comply with County contract requirement.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records, and reviewed documentation for 6 (60%) of the 10 non-personnel expenditure transactions billed by the Agency for June 2005, totaling \$46,654. In addition, we reviewed documentation for 10 (67%) of the 15 non-personnel expenditure transactions billed by the Agency for December 2005, totaling \$31,185.

Results

Housing Authority's expenditures were allowable, properly documented and accurately billed to DCSS as required.

Recommendation

There are no recommendations for this section.

INTERNAL CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether the contractor maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit, and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

Generally, Housing Authority maintained adequate internal controls over its business operations. However, Housing Authority was not in compliance with the following County contract requirements:

- Housing Authority did not have a fire inspection certificate or a building permit.
- Housing Authority did not submit their invoices to DCSS within five working days of the month immediately following the month in which the services invoiced were rendered. Housing Authority's invoices for July 2005 through October 2005 were submitted in December 2005 and the invoices for November and December 2005 were submitted in February 2006.
- Housing Authority's procurement policy requires that one quotation be obtained for purchases of \$2,500 or less. However, WIA guidelines require that a minimum of three price quotes be documented for purchases over \$1,000.

Recommendations**Housing Authority management:**

- 6. Obtain a fire inspection and building permit.**
- 7. Ensure that invoices are submitted to DCSS within five working days of the month following the month in which the services invoiced were rendered.**
- 8. Ensure that the agency's procurement policies are in compliance with regulatory standards and distributed to personnel.**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether the Agency's fixed assets and equipment purchases made with WIA funds are used for the WIA program and that the items are safeguarded.

We did not perform test work in this section, as Housing Authority did not use WIA funding to purchase fixed assets or equipment.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll is appropriately charged to the WIA program. In addition, determine whether personnel files are maintained as required.

Verification

We traced and agreed all the payroll expenses invoiced for three employees in March 2005, totaling \$2,392 to all the payroll records and time reports. We also traced and agreed the payroll expenses invoiced for five employees in November 2005, totaling \$1,730 to the payroll records and time reports. In addition, we interviewed two staff and reviewed personnel files for five employees assigned to the WIA program.

Results

The timecards that the Housing Authority staff completed did not identify the hours that each staff worked in providing WIA related services. As such, the Housing Authority billed DCSS based on budgeted amounts. The County contract requires employees to report the total hours worked each day by program. Time estimates do not qualify as support for payroll expenditures and will be disallowed on audit.

The Housing Authority also did not maintain current performance evaluations for two (40%) of the five personnel sampled. The performance evaluations for both of the employees were completed in March, and May 2004, respectively.

Subsequent to our review, Housing Authority provided electronic time reports that supported the payroll expenses and provided the current performance evaluation for one of the two employees who did not have a current performance evaluation in their personnel files.

Recommendations**Housing Authority management:**

9. Ensure that employees indicate the total hours worked each day by program on their timecards to support the payroll expense.
10. Ensure that only actual payroll expenses are invoiced and not based on estimated amounts.
11. Ensure that annual performance evaluations are performed and copies maintained in the employees' personnel files.

COST ALLOCATION PLAN**Objective**

Determine whether the Agency's Cost Allocation Plan was prepared in compliance with the County contract and applied to program costs.

Results

Housing Authority did not have a cost allocation plan. According to the Agency's staff, pooled costs are allocated at the cost allocation rate, which is based on the prior quarter's actual salary allocation. Housing Authority was unable to provide the supporting documentation for the cost allocation rate. This was also noted during our review of the FY 2004-05 expenditures.

Subsequent to our review, Housing Authority provided the Cost Allocation Plan for Fiscal Year 2004-05 and the supporting documentation for the cost allocation rate. However, the Housing Authority did not submit the plan to the County for review as required.

Recommendations**Housing Authority management:**

12. Ensure that the Cost Allocation Plan is reviewed and evaluated annually.
13. Submit an annual Agency-wide Cost Allocation plan.



HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
AN EQUAL EMPLOYMENT OPPORTUNITY- AFFIRMATIVE ACTION EMPLOYER
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November 16, 2006

J. Tyler McCauley, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Suite#51
Alhambra, CA 91803

**RE: HOUSING AUTHORITY OF THE CITY OF LOS ANGELES CONTRACT -
WORKFORCE INVESTMENT ACT PROGRAMS**

Dear Mr. McCauley:

The Housing Authority of the City of Los Angeles (HACLA) appreciates the opportunity to respond to the program, fiscal and administrative review results and recommendations included in the report dated October 2006.

Attached is HACLA's response to your recommendations. If you have any questions, please contact Alma Oraa, Budget Analyst at (213) 252-2671.

Sincerely,

Alfonso L. Verduzco
Chief Financial Officer

AV:JT:AO:ab
Enclosures

**WORKFORCE INVESTMENT ACT PROGRAM
HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
FISCAL YEAR 2005-2006 REVIEW RESULTS AND RESPONSE**

ELIGIBILITY

RESULTS:

Housing Authority did not obtain appropriate documentation for two (20%) of the ten program participants to support the participants' eligibility to receive program services as required by WIA guidelines. Housing Authority billed DCSS \$125 in direct supportive services provided to the two individuals not eligible for program services. Housing Authority also may have billed DCSS for other indirect services for the two ineligible participants. However, we cannot determine the amount of the indirect expense.

Subsequent to our review, Housing Authority provided documentation to support the eligibility of one of the two ineligible participants.

Recommendations

Housing Authority management:

- 1. Repay DCSS \$63 and for any other services incurred on behalf of the one ineligible participant.**
- 2. Ensure that staff obtains the appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment.**

HACLA Response:

- 1. The Housing Authority of the City of Los Angeles agrees to return the amount received on behalf of one ineligible participant. Please find enclosed a check in the amount of \$63 payable to the County of Los Angeles.*
- 2. The Housing Authority of the City of Los Angeles will ensure that staff obtains the appropriate documentation from the participants to determine the participants' eligibility for program services prior to enrollment.*

BILLED SERVICES/CLIENT VERIFICATION

Results:

The nine program participants interviewed stated that the services received met their expectations. However, the Housing Authority *did not maintain appropriate* documentation in two (20%) of the ten participants' case files to support the billed services provided to the two individuals. An acceptable documentation for supportive services would be an invoice or a receipt signed by the participant. The total amount of unsupported services was \$160.

Subsequent to our review, Housing Authority provided copies of receipts to support the supportive services. However, it was not signed by the participant to validate that the participants did receive the supportive services as required. As such, Housing Authority needs to repay DCSS \$160.

Recommendations

Housing Authority management:

3. Repay DCSS \$160.
4. Ensure that staff obtain appropriate supporting documentation for supportive services provided to the participants.

HACLA Response:

3. The Housing Authority of the City of Los Angeles agrees to return the amount received for supportive services in the amount of \$160.
4. The Housing Authority of the City of Los Angeles will ensure that staff obtain appropriate supporting documentation for supportive services provided to the participants.

CASH/REVENUE

Results:

Housing Authority maintained adequate controls to ensure that cash receipts and revenues were properly recorded and deposited in a timely manner. However, Housing Authority's accounting policies and procedures indicates that checks may not be made out to cash, except for petty cash. According to the County contract, checks made payable to "cash" is strictly prohibited.

Recommendation

5. Housing Authority management revise the Agency's accounting policies and procedures to comply with County contract requirement.

HACLA Response:

5. HACLA is currently not issuing any checks payable to "cash" or to "petty cash". The petty cash checks are currently issued and payable to the petty cash custodian. The statement in the HACLA's accounting policies and procedures indicating that checks may not be made out to cash, except for petty cash will be revised.

INTERNAL CONTROLS/CONTRACT COMPLIANCE

Results:

Generally, Housing Authority maintained adequate internal controls over its business operations. However, Housing Authority was not in compliance with the following County contract requirements:

- Housing Authority did not have a fire inspection certificate or a building permit.
- Housing Authority did not submit their invoices to DCSS within five working days of the month immediately following the month in which the services invoiced were rendered. Housing Authority's invoices for July 2005 through October 2005 were submitted in December 2005 and the invoices for November and December 2005 were submitted in February 2006.
- Housing Authority's procurement policy requires that one quotation be obtained for purchases of \$2,500 or less. However, WIA guidelines require that a minimum of three price quotes be documented for purchases over \$1,000.

Recommendations

Housing Authority management:

6. Obtain fire and building inspections.
7. Ensure that invoices are submitted to DCSS within five working days of the month following the month in which the services invoiced were rendered.

8. Ensure that the agency's procurement policies are in compliance with regulatory standards and distributed to personnel.

HACLA Response:

6. According to the building engineer, the building located at 520 South Lafayette does not need to have Fire and Health Inspection Certificates because it is not considered a high-rise building.

7. HACLA is currently operating a newly installed software, which will enable us to generate real time data and perform quick financial data reporting. We are, however, facing some challenges in its operation. Once the system gets up and running smoothly, we will be able to submit the expenditure reports within DCSS's required period of time.

8. HACLA will ensure that it complies with WIA's procurement guideline of three price quotes for purchases over \$1,000.

PAYROLL AND PERSONNEL

Results:

The timecards that the Housing Authority staff completed did not identify the hours that each staff worked in providing WIA related services. As such, the Housing Authority billed DCSS based on estimated amounts when employees did not include the hours worked by program on the timecards. The County contract requires the time reports must indicate total hours worked each day by program and that time estimates do not qualify as support for payroll expenditures and will be disallowed on audit.

The Housing Authority also did not maintain current performance evaluations for two (40%) of the five personnel sampled. The performance evaluation for one employee was completed in March 2004. The performance evaluation for the second employee was completed in May 2004.

Subsequent to our review, Housing Authority provided additional documentation to support the payroll expenses and provided the current performance evaluation for one of the two employees who did not have a current performance evaluation in their personnel files.

Recommendations

Housing Authority management:

9. Ensure that employees indicate the total hours worked each day by program on their timecards to support the payroll expense.
10. Ensure that only actual payroll expenses are invoiced and not based on estimated amounts.
11. Ensure that annual performance evaluations are performed and copies maintained in the employees' personnel files.

HACLA Response:

9. HACLA is now requiring all employees to indicate the total hours worked each day by program on their timecards, and with Oracle up and running we will be able to produce an accurate payroll data.

10. HACLA faced some challenges in the implementation process of the new system, which was delaying the posting of the payroll expenses. Though the submitted invoices for payroll were initially based on estimated amounts, these expenses were adjusted on subsequent billings based on actuals. Additionally, HACLA ensures that close out invoices and reports are based on actual expenses and being reconciled to the General Ledger.

11. HACLA will ensure that the annual performance evaluation of all employees is performed and that copies of the evaluation are maintained in the employees' personnel files.

COST ALLOCATION PLAN

Results:

Housing Authority did not have a cost allocation plan. According to Agency personnel, pooled costs are allocated at the cost allocation rate, which is based on the prior quarter's actual salary allocation. Housing Authority was unable to provide the supporting documentation for the cost allocation rate. This was also noted during our review of the FY 2004-05 expenditures.

Subsequent to our review, Housing Authority provided the cost allocation plan for Fiscal Year 2004 and the supporting documentation for the cost allocation rate. According to the County contract, the contractor is to submit an annual Agency-wide Cost Allocation Plan. As such, Housing Authority should submit an annual Agency-wide Cost Allocation Plan as required.

Recommendations

Housing Authority management:

- 12. Ensure that the Cost Allocation Plan is reviewed and evaluated annually**
- 13. Submit an annual Agency-wide Cost Allocation plan.**

HACLA Response:

12. HACLA will ensure that the Cost Allocation Plan is reviewed and evaluated annually.
13. The Agency-wide Cost Allocation plan is in the process of being approved. HACLA will submit it to DCSS as soon as it is approved.